

The Audit Program

Section II — Specific Compliance

Proprietary Funds

Fund 70 — Internal Service Funds

Internal Service Funds (N.J.A.C. 6A:23A-16.11)

Internal Service Funds are established exclusively to finance, administer and account for district/charter school/renaissance project activities that provide goods and services to other district/charter school/renaissance project departments or agencies on a cost-reimbursement basis. Some examples include printing or data processing services. GASBS 10 permits school districts/charter schools to use an internal service fund to account for risk financing activities, such as self-insurance funds. Districts/charter schools /renaissance school projects should only use internal service funds to account for the financing of goods or services provided by one department or office to other departments or offices of the district board of education/ board of trustees, or to other district boards of education/ board of trustees and governmental units, on a cost-reimbursement basis. Internal service funds are cost accounting and distribution entities and are intended to "break even" annually and/or over a period of years. The use of an internal service fund does not provide additional revenue or expenses to the district/charter school/renaissance school project but acts as a means to document the sharing of the costs. Use of this fund replaces the prior common practice of "refunding" expenditure accounts for shared services. Some activities that may be accounted for in an internal service fund are central purchasing and warehousing, central motor pools, central printing and duplicating or central data processing departments. Joint transportation agreements where the lead district/charter school/renaissance school project uses its own employees and buses are accounted for in an internal service fund. Joint transportation agreements where the lead district contracts with a vendor are accounted for in the general fund.

Arrangements for sharing the costs of administrative and other non-instructional personnel and related costs under joint agreements where the employees remain under the employment of one lead district/charter school/renaissance school project would also be accounted for in an internal service fund in the records of the lead district/charter school/renaissance school project. Each of the "sharing" districts/charter schools/renaissance school projects, including the employing lead district/charter school/renaissance school project, should reflect their agreed-upon portion of the costs in the general fund. For the employing district/charter school/renaissance school project, that cost would be budgeted as a salary expenditure. The "sharing" districts/charter schools/renaissance school projects would account for the payments made to the lead district/charter school/renaissance school project as a contracted service under the appropriate function. If the shared employees have employment contracts with each of the districts/charter schools/renaissance school projects involved, each district's/charter school's/renaissance school project's share of the employees' salary and related costs would be budgeted and expended against the appropriate salary and other accounts and there would be no need for any of the districts/charter schools/renaissance school projects involved to establish an internal service fund.

- The district board of education/board of trustees providing the shared service shall allocate the costs on a user charge basis to all participating entities on an annual basis at a minimum.
- User charges should be reported by entities or funds being serviced by the internal service fund in the applicable line item account for the goods or services received.

- Sales and purchases of goods and services for a price approximating their external exchange value should be reported as revenues ("Services Provided to Other Funds"). The total user charges should approximate the total costs of the internal service fund.

Local school district/charter school/renaissance school project auditors should refer to Chapter 14 of the GAAP Technical Systems Manual for additional guidance. As a reminder, the costs of instructional programs, including regular, special, or adult education, should be accounted for in the general fund. The one exception would be those districts/charter schools/renaissance school projects which contract with the Department of Education to run its Regional Day Schools.

Self-insurance (Risk Financing)

Self-insurance is the practice of a school district/charter school/renaissance school project controlling and self-directing the costs of administering an insurance program while retaining a risk of loss. GASBS Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended by GASBS 30, *Risk Financing Omnibus*, provides the accounting and financial standards for risk financing and self-insurance related activities. GASBS 10 paragraph 63 permits the use of either the internal service fund or the general fund for such purposes. NJDOE has recommended using the internal service fund. The Government Finance Officers Association's publication *Governmental Accounting, Auditing, and Financial Reporting* (the "Blue Book") references GASBS 10 paragraph 66 and states on page 101, "If a government chooses to use an internal service fund to account for its risk financing activities, interfund premiums should be classified as interfund services provided (a reciprocal interfund activity). As a result, premiums received by the internal service fund should be reported as revenues. Unless excess revenues are justified, premiums in excess of probable and measurable losses incurred must be reported as an operating transfer (a nonreciprocal interfund activity) rather than as revenue."

The Internal Service Fund reports on the accrual basis and per GASBS 10 paragraph 53 should limit liability recognition to probable and measurable losses as of the balance sheet date. For example, worker's compensation losses that have been incurred but not reported (event occurred, but no claim has been asserted at the balance sheet date), are accrued if a reasonable estimate of the loss can be made.

Fiduciary Funds

GASB Statement No. 84, *Fiduciary Activities*

GASB Statement No. 84, which establishes criteria for identifying fiduciary activities of all state and local governments, was required starting fiscal year ending June 30, 2021. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Determining whether an activity is fiduciary can be a challenge. Governmental Accounting Standards Board (GASB) recently issued Implementation Guide No. 2019-2, *Fiduciary Activities*.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. School districts/charter schools/renaissance school projects with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

GASB No. 84 describes four fiduciary funds that should be reported, if applicable:

- (1). pension (and other employee benefit) trust funds,
- (2). investment trust funds,
- (3). private-purpose trust funds, and
- (4). custodial funds.

Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

Other employee benefit) trust funds are used to report fiduciary activities for other employee benefit plans for which (1) resources are held in a trust that meets the criteria in paragraph 11c(1) and (2) contributions to the trust and earnings on those contributions are irrevocable.

Investment trust funds are used to report fiduciary activities from the external portion of investment pools and individual investment accounts⁶ that are held in a trust that meets the criteria in paragraph 11c(1).

Private-purpose trust funds are used to report all fiduciary activities that (a) are *not* required to be reported in pension (and other employee benefit) trust funds or investment trust funds and (b) are held in a trust that meets the criteria in paragraph 11c(1).

Refer to the [GASB No. 84 Implementation Guide No. 2019-2, *Fiduciary Activities*](#).

Please refer to the [March 27, 2020 Broadcast](#) for the guidance to implement GASB Statement No. 84.

Fund 80—Trust Fund

Fiduciary fund activity is not included in the district/school-wide financial statements (the Exhibit A series) but is reported in the fund statements (Exhibit B7 and B8) as described below. Inclusion of the trust or custodial fund resources in the district/school-wide financial statements might mislead the reader about the financial position of the district/charter school/renaissance school project since these funds are not available for use by the district/charter school/renaissance school project.

There are two required fiduciary fund financial statements under Generally Accepted Accounting Principles (GAAP):

- *Statement of Fiduciary Net Position*
- *Statement of Changes in Fiduciary Net Position*

Refer to the *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Position* (Exhibits B-7 and B-8), the sample fiduciary fund statements, in the Sample Statements section on the [NJDOE ACFR](http://www.state.nj.us/education/finance/fp/acfr/) website at: <http://www.state.nj.us/education/finance/fp/acfr/>.

Section 457 Deferred Compensation Plans

N.J.S.A. 18A:66-127 through 129 permits boards of education/board of trustees to establish tax-sheltered deferred compensation plans under section 457 of the federal Internal Revenue Code. Additionally, the act grandfathers any section 457 plan established by a board of education/board of trustees prior to the effective date of this law.

GASB Statement No. 32 Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans as amended by GASB Statement No. 34 provides authoritative guidance on the reporting of 457 plans. Generally, the district Board of Education/board of trustees must determine whether or not the Board is acting in the capacity as trustee for the plan. Factors such as whether the Board has retained the power to make investment decisions for the plan, approves loans made from plan assets, and approves withdrawals for unforeseen emergencies suggest the Board is acting in the capacity of a trustee.

If the Board is acting as a plan trustee, then the assets of the plan are reported in the fiduciary fund under the category “pension and other employee benefit trust funds.” If the district/charter school/renaissance school project has established a 457 plan but does not hold the assets in a trustee capacity, then those assets are not included in the district’s/charter school’s/renaissance school project’s fiduciary fund financial statements.

Fund 90 — Custodial Fund

Under GASB No. 84, *Custodial funds* are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The external portion of investment pools that are not held in a trust that meets the criteria in paragraph 11c (1) should be reported in a separate *external investment pool fund* column, under the custodial fund classification.

Fund Raising in Schools by Outside Organizations

Organizations such as the United Fund, March of Dimes, etc., may request that moneys be collected. These funds are not subject to audit. Boards of education/board of trustees may give permission for the collection to be made in schools. Any teacher or pupil who serves as a collector does so as a private citizen and not as an employee of the board. Accurate records must be kept but responsibility is to the organization and not to the board of education/board of trustees for the money collected.

In order to avoid misunderstanding, we advise that boards of education/board of trustees that give permission for soliciting in a school building by outside organizations make it clear that the board is not directing the teachers and pupils to collect funds, but merely granting permission to do so. The board is further advised to disclaim any responsibility for the protection of, and the accounting for, the funds to the outside organizations.

Any collector should understand that he/she is collecting voluntarily as a citizen and not as a teacher or pupil, and that the board of education/board of trustees has no responsibility for the protection of moneys so collected.

Some boards may have given permission for depositing funds collected in drives in a school activity account and the issuance of checks thereon to the outside organization. Although this might be a convenience to school personnel who are handling the money collected, it causes an undesirable commingling of funds for which the board should have no responsibility. The commingling of such funds is legally suspect. However, if it occurs the commingled funds are subject to audit by the boards' auditors.

Funds of Teacher Organizations and Parent/Teacher Organizations

The law provides that the books, accounts and moneys of any officer or employee of the board shall be audited. This does not mean that every time a school employee serves as treasurer of an organization that the account must be audited. It is only when money is held for which the board is directly or indirectly responsible that the accounts must be audited. The board has no responsibility for the funds of teacher organizations. A school employee who serves as a treasurer of such an organization does so as a citizen and not as an employee of the board. If moneys were deposited in a central school fund, they would be subject to audit.

Funds Collected by Teachers from Pupils for Immediate Purchase of Items

Teachers may receive money from children to buy magazines, tickets, etc., in bulk to save the children money. It is our opinion that in so doing the teacher represents the children and not the board of education/board of trustees and assumes full responsibility for the transactions.

Refer to Section I Chapter 1 for information on GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Capital Assets

Overview

Capital assets include land and land improvements, buildings, furniture, fixtures and equipment, infrastructure items, works of art and historical treasures.

The capitalization threshold used by school districts and charter schools/renaissance school projects in the State of New Jersey is \$2,000. This is a policy set for financial reporting and accounting purposes. Districts/charter schools/renaissance school projects may use a lower threshold for asset management and insurance purposes.

The Uniform Minimum Chart of Accounts for New Jersey Public Schools (COA) was issued effective for July 1, 2004 (revised June 2021) and eliminated the GFAAG to be consistent with GASBS 34 and the National Center for Education Statistics Chart of Accounts. Districts/charter schools/renaissance school projects are still required to record capital assets and may designate a numeric or alpha fund number in their general ledger which is suitable for their software system (e.g., 100, 99 or CA) or use a separate fixed asset module. The fixed asset ledger should be updated monthly for internal control purposes.

Reporting Capital Assets

Capital assets are reported at historical cost, including ancillary charges necessary to place the asset into its intended location and condition for use. “Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees.

Effective for reporting periods beginning after June 15, 2015, GASB Statement No. 72, “Fair Value and Measurement Application.” donated capital assets should be measured at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement.

(new) Effective for reporting periods beginning after December 15, 2020, GASB Statement No. 89, requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

The chart below highlights which statements report capital assets. “N/A” means that statement is not issued for that particular fund type, whereas “No” means that statement is issued for that particular fund type, but capital assets are not reported.

Class of capital asset	District/school-wide statements	Funds statements	Budgetary comparison schedules
Governmental	Y	No	No
Proprietary	Y	Y	N/A
Fiduciary	N/A	Y	N/A

Statement of Net Position

Report capital assets within the governmental activities column in the district/school-wide *Statement of Net Position*. Capital assets of proprietary funds are reported in the business-type activities column of the *Statement of Net Position*.

Governmental Accounting Standards Board Statement (GASBS) 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, changes the Statement of Net Assets to the Statement of Net Position. Along with the name change, the Statement of Net Position will include two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are required to be reported in a Statement of Net Position in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are required to be reported in a Statement of Net Position in a separate section following liabilities. In addition, the totals of these two new classifications should be added to the total for assets and liabilities, respectively. GASBS 63 also changes the definitions and calculations of former net asset classifications—invested in capital assets, net of related debt, restricted and unrestricted. Invested in capital assets, net of related debt will be titled “Net Investment in Capital Assets.” The title of the other two classifications will remain the same. The calculations used in arriving at the balances of the classifications will be similar to what they were before, but each will include the new components of deferred outflow and deferred inflow of resources consistent with the placement of assets and liabilities, respectively. For example, the restricted component of net position now will generally consist of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Note to Auditor: GASBS 65 *Items Previously Reported as Assets and Liabilities*, reclassifies as deferred inflows/outflows of resources or deferred inflows/outflows of resources certain items that were previously reported as assets and liabilities. Examples of deferred outflows of resources provided by GASB that might impact the financial statements of districts include grant expenditures paid in advance meeting timing requirements e.g. disbursement of amounts in advance of receipt of grant funds subsequently drawn down; and deferred amounts from debt refunding (debits). Examples of deferred inflows of resources include grant amounts received in advance of meeting timing requirements e.g. a drawdown of grant funds in advance of actual expenditure; and deferred amounts from debt refunding (credits). Upon implementation of GASBS 65, the use of the word “deferred” in financial statements is exclusive to deferred inflows of resources and deferred outflows of resources.

Funds Statements

Capital assets used in governmental activities are not reported as assets in governmental funds statements since the governmental funds statements follow the modified accrual basis of accounting and capital assets are not current financial resources. Proprietary fund capital assets *are* reported in the fund statements since this fund uses the accrual basis of accounting (economic resources). Capital assets of fiduciary funds are reported in the fund level since the fiduciary funds statements use the accrual basis of accounting. The fiduciary assets are not considered available to the district/charter school/renaissance school project and therefore are not reported on the district/school-wide statements.

Capital outlays of the governmental funds are reported as a reconciling item in the *Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities*, which reconciles the net change in government fund balances to the change in net assets of governmental activities.

District/charter school/renaissance school project staff and auditors may refer to the [NJDOE ACFR](http://www.state.nj.us/education/finance/fp/acfrouline/) website: <http://www.state.nj.us/education/finance/fp/acfrouline/> for sample statements noted above.

District/charter school/renaissance school project staff and auditors should also refer to the Section II-30, Capital Projects Fund, of this *Audit Program* for related subjects.

(new) Effective for fiscal year 2021-22, GASBS No. 87 requires lessees to recognize a lease liability and an intangible right-to-use lease asset at the commencement of the lease term. In order to convert the fund financial statements from a modified accrual basis to an accrual basis for the preparation of the government-wide financial statements, the expenditure must be capitalized, any related depreciation expense must be recorded, and the debt must be recognized along with the accrual of any related interest expense.

Construction in Progress

Assets under construction are tracked through Construction in Progress until completion. *N.J.S.A.* 18A:18A-42 provides that purchase orders for construction, reconstruction or rehabilitation of any public building are valid for the length of time authorized for completion of the actual project.

Charter school auditors are to ensure that charter schools that have constructed facilities are not in violation of *N.J.S.A.* 18A:36A-10, which states that a charter school shall not construct a facility with public funds other than federal funds.

Reporting of Capital Assets Acquired Through Non-Cash Grants

Capital assets acquired through non-cash grants are reported only in the district-wide Statement of Net Position at fair market value. This is applicable to buildings constructed for a district by the Economic Development Authority/School Construction Corporation (SDA). Districts are to obtain the June 30 value of SDA constructed assets from the SDA.

Sample Format for the Capital Asset Subsidiary Ledger

As noted in Chapter I-1 of this Audit Program, schedules of capital assets should be prepared prior to audit. The following is a suggested minimum format for districts/charter schools/renaissance school projects use in maintaining records of capital assets, including accumulated depreciation (Accum. Depr.) and depreciation (Depr.):

Classification	N1	N2	Date Placed in Service	Acquisition Cost	Method of Depr.	Life N3	6/30/xx Accum Depr.	7/1/xx–6/30/xx Depr. Expense	6/30/xx Accum. Depr.
Buildings:									
School #1	X	X	7/1/xx	\$5,000,000	S/L	35 yr	\$1,285,715	\$142,857	\$1,428,572
Furniture:									
Desks	B2	P5	7/1/xx	\$5,000	S/L	10 yr	\$4,500	\$500	\$5,000

N1 — Assets should be tagged and maintained by physical location.

N2 — Assets that can be specifically identified to a program or function should be noted with the program code. If assets are not specifically identifiable, the district/charter school/renaissance school project should note “N/A” in the program column.

N3 — Districts/charter schools/renaissance school projects may refer to the table of estimated useful lives (International ASBO) included in Section III-6 of this Audit Program.

Refer to III-6.8 (Audit Checklists and Questionnaire) for capital asset schedule requirements.

Depreciation Expense

The GASB Implementation Guides provide guidance on depreciation expense which is to be reported as a direct expense of the function served. As the number of functions served by an asset increases, the ease, practicality, and usefulness of assigning depreciation to those functions decreases. Therefore, depreciation of assets serving many or essentially all functions is not required to be included in the direct expenses of those many functions. Depreciation of a shared capital asset used by only a few functions can be allocated to those functions using an objective measure for the assignment of cost. For example, building depreciation may be allocated based on square footage assigned to the respective functions. The department recommends districts/charter schools/renaissance school projects use the straight line method of depreciation.

Long-Term Liabilities

Overview

Long-term liabilities generally include debt issuances, the non-current portion of lease-purchase agreements, capital leases, operating leases with scheduled rent increases, compensated absences, claims and judgments, early retirement incentive programs, and rebatable arbitrage.

The Uniform Minimum Chart of Accounts for New Jersey Public Schools (COA) was issued effective for July 1, 2004 (revised June 2021) and eliminated the GLTDAG to be consistent with GASBS 34 and the National Center of Education Chart of Accounts. Districts/charter schools/renaissance school projects must continue to record the long-term liabilities in the general ledger and may designate a numeric or alpha fund number which is suitable for their software system, e.g., 100, 99 or LT. The ledger should be updated on a periodic basis (e.g., monthly), for internal control.

Statement of Net Position

General long-term liabilities include bonds, notes, and other long-term liabilities that are not directly related to and expected to be paid from proprietary and trust funds. Liabilities of the proprietary fund are reported in the proprietary fund *Statement of Net Position*; liabilities of the trust fund are reported in the *Statement of Fiduciary Net Position*. General long-term liabilities of the district/charter school/renaissance school project should be reported in the governmental activities column of the district/school-wide *Statement of Net Position*. Similar to the presentation of assets, liabilities are reported in the order of liquidity. “Liabilities with average maturities greater than one year should be reported in two components — the amount due within one year and the amount due in more than one year” (GASBS 34, par. 31).

Interfund liabilities, even if non-current, are not long-term liabilities. District/charter school/renaissance school project staff and auditors should refer to the revised GASB Codification 1500.

Governmental Funds Statements

Governmental funds reporting focuses on current financial resources; hence the fund financial statements do not include long-term liabilities such as bonds payable. The fund statements are intended to present a more detailed short-term view of basic education services with the most readily available assets and current liabilities. The governmental funds balance sheet includes a reconciliation of total governmental funds balance to the net assets of governmental activities. Long-term liabilities are a common reconciling item. The purpose of the reconciliation is to assist the reader to understand how the short-term financial information in the governmental funds statements differs from the more comprehensive financial information in the district/schoolwide statements.

Disclosures

Refer to GASBS 34, GASBS 38, and the GASB Implementation Guides for guidance on disclosures including provisions for year-end accrual of interest, amortization of premium or discount over the life of the bonds and inclusion for discussion within the Management Discussion and Analysis.

Compensated Absences

Statement No. 16 of the Governmental Accounting Standards Board (GASB), “Accounting for Compensated Absences”, changed the method for calculation of a district’s/charter school’s/renaissance school project’s liability for compensated absences (e.g., vacation, sick leave). This Statement supersedes

the instructions shown on pages 13.4 and 13.5 of the GAAP Technical Systems manual regarding calculation of this liability for inclusion in the general long-term debt account group. By memo of May 15, 1995, this department advised School Administrators and Public School Accountants of the change. Auditors should refer to GASBS 16 and the Codification of Governmental Accounting and Financial Reporting Standards, Section C60, for further explanation and illustrations of calculations of vacation leave and sick leave.

The inclusion of the long term portion of compensated absences in the district/schoolwide Statement of Net Position may generate a deficit in unrestricted net assets. This occurs because the pre-GASBS 34 fund balance is based on current resources, whereas the GASBS 34 net assets is based on economic resources and includes both long term assets and long-term liabilities. When the long-term portion of compensated absences exceeds all other unrestricted net assets, a deficit will occur.

Pension and Other Postemployment Benefits (OPEB)

Please refer to section II-10 of this Audit Program for guidance regarding Governmental Accounting Standards Board Statement (GASBS) No. 68 *Accounting and Financial Reporting for Pensions*. Please refer to section II-10 of this Audit Program for guidance regarding Governmental Accounting Standards Board Statement (GASBS) No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Early Retirement Incentive Programs (PERS/TPAF and Other Offers)

Legislation enacted in 1991, 1993 and 2002 provided early retirement incentives (ERIP) for certain members of TPAF and PERS who met certain age and service requirements and who applied for retirement between certain dates in that fiscal year. The ERIP was subject to Board approval. School districts/charter schools/renaissance school projects are assessed annually for their actuarially determined contribution to fund this program. Each participating district/charter school/renaissance school project was given several options as to the length of time it desired to fund this liability.

Under GAAP, the district/charter school/renaissance school project ERIP liability is considered a contractual obligation. The liability is calculated for each participating district/charter school/renaissance school project and billed to the district/charter school /renaissance school project separately from its normal pension obligation, if any. For fund statement purposes, advance payments made against that contractual obligation are considered GAAP expenditures in the year of payment. The department recommends proper footnote disclosure and a supplemental exhibit identifying the annual maturities.

School districts are prohibited from implementing an early retirement incentive program (unauthorized ERIP) without the prior approval of the State. According to the Division of Pensions the prohibition against employer-sponsored retirement incentive programs is in place primarily to protect the financial integrity of the retirement systems. If employers were able to offer employees incentives to retire, it would seriously degrade the ability of the pension system to establish reasonably accurate experience assumptions upon which pension funding is based.

During 2014, several school districts were cited as having offered prior period unauthorized early retirement incentive programs to district employees. Early retirement incentives must have the prior approval of the State Department of Community Affairs and the Department of Treasury. Districts that fail to obtain full approval will be held fiscally responsible to reimburse the Division of Pensions and Benefits for the additional pension and other benefits costs resulting from the unauthorized programs. The billings are not considered fines and are only intended to cover the actuarially determined costs of the unauthorized program(s).

Auditors are required to inquire as to whether the district has been notified of prior implementation of an unauthorized ERIP or implemented an unauthorized ERIP during the year under audit. Auditors must determine whether school district financial statements and schedules should reflect an unauthorized ERIP liability (or payment of the liability) and proper note disclosure in accordance with GASBS No. 10, paragraph 58 and GASBS No. 62 paragraphs 104, 107, and 109.

N.J.S.A.18A:24-61.2 permits NJ school districts to issue refunding bonds to fund their remaining ERIP liabilities. Auditors should refer to the [Question and Answer Guidance](https://www.nj.gov/education/finance/fp/af/faq_retire.shtml) at: [nj.gov/education/finance/fp/af/faq_retire.shtml](https://www.nj.gov/education/finance/fp/af/faq_retire.shtml). At the time the payment is made to retire the unfunded liability, the old balance is removed from the district's general long-term liabilities, the new balance recorded as a general long-term liability and subsequently reported in the district-wide statement of net assets. The refunding transaction is reported in the *Statement of Revenues, Expenditures, and Changes in Fund Balances* as "Other Financing Sources – Long-Term Debt Issued" and "Other Financing Uses – Repayment of ERIP Liability".

If there is not a requirement in the bond agreement to use the debt service fund, the transaction is recorded in the general fund. Districts and auditors should refer to GASB Codification sections 1500 and D20 for further guidance on year-end reporting and disclosures.

Termination Benefits

Termination benefits may be voluntary (early-retirement incentives) or involuntary (severance benefits). GASB Statement 47 *Accounting for Termination Benefits* is effective for periods beginning after June 15, 2005 for termination benefits offered outside of an existing defined benefit or other postemployment benefit (OPEB) plan. Benefits effecting an employer's obligations for defined benefit pension or other postemployment benefits should be accounted for and reported under the requirements of GASBS 27, *Accounting for Pensions by State and Local Governmental Employers*, or GASBS 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB).

Arbitrage Requirements

The glossary of The Government Finance Officers Association's publication *Governmental Accounting, Auditing, and Financial Reporting* (the "blue book") describes rebatable arbitrage as "A term used in connection with the reinvestment of the proceeds of tax-exempt debt. A requirement to remit to the federal government interest revenue in excess of interest costs when the proceeds from the sale of tax-exempt securities are reinvested in a taxable money market instrument with a materially higher yield."

Districts should refer to page 66 of the GASBS 34 edition of the "blue book" for guidance on rebatable arbitrage. "Rebatable arbitrage should *not* be treated as a reduction of investment revenues in governmental funds; it should instead be treated in the same way as any other claim or judgment. There should be no recognition in the governmental fund's balance sheet or operating statement until rebatable liability amounts are actually due and payable to the federal government." The AICPA Audit and Accounting Guide, *State and Local Governments* includes guidance on arbitrage requirements in section 5.07. "Governments generally should calculate the arbitrage liability annually to determine whether it is material and thus should be reported in the financial statements." If material, the arbitrage liability is reported in the district wide statements and when actually due and payable, reported in the funds statements.